
Commission on Building for the 21st Century

Interim Report
to the Governor

August 2, 1999



BUSINESS, TRANSPORTATION AND HOUSING AGENCY

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August 2, 1999

Dear Governor Davis:

It is with great pleasure that we submit to you the interim findings and recommendations of the Commission on Building for the 21st Century. While this is an interim report, we believe that it represents a balanced and cohesive approach to the challenge of investing in the infrastructure of California for the new millennium. Our goal is to inform you with these interim findings and recommendations as you begin your dialogue with the Legislature on immediate bond and financing priorities. Formulated and developed by each committee after considerable fact-finding and deliberation, this report has been approved and endorsed by the entire Commission.

The Commission adhered to your direction given at the outset of this process to preserve California's quality of life, maintain its economic prosperity, and live within our means. Moreover, we believe this report is consistent with your vision that all Californians share in the prosperous future that a strong infrastructure and public investment program will provide.

Through these investments and strategies, we will:

- increase the availability and affordability of housing, so that our citizens can afford to live within reasonable distance of their place of employment;
- increase mobility and reduce congestion for commuters, through enhanced travel options in heavily traveled corridors;
- sustain the high quality and reliability of our water supply for the state's residents, industries, and agriculture;
- preserve our urban heritage park lands and recreational areas, so that Californians can enjoy their beauty and seek refuge from the urban environment; and
- embark on providing universal access to information technology for the youth of our state who embody our future.

This Commission recognizes that these investments and strategies are not a panacea. It will take a sustained financial commitment to reverse the effects of the past inaction. We recognize that this is a complex and challenging undertaking. We applaud your courage and foresight in initiating programs that will benefit generations to come. We will continue this important work with the Commission to develop a long-range vision consistent with our May 1999 report. We will also continue to report our progress to you and complete a final report with recommendations by December 2000.

A handwritten signature in black ink, appearing to read "Maria Contreras-Sweet".

MARIA CONTRERAS-SWEET, Secretary
Business, Transportation and
Housing Agency

A handwritten signature in black ink, appearing to read "Cruz M. Bustamante".
CRUZ M. BUSTAMANTE
Lieutenant Governor

FACILITIES COMMITTEE FINDINGS AND RECOMMENDATIONS

FACILITIES

The Facilities Committee has analyzed infrastructure needs in a multitude of areas including courts, hospitals, museums, prisons, veterans' homes, housing, schools, and universities, and reviewed such issues as public building safety and retrofit, and public building capacity. In general, this committee notes the past fifteen years of under-investment in these critical components of California's infrastructure. The Committee also considered the fact that educational facilities received substantial funding with approval of a \$9.2 billion bond in November 1998 and that your recent initiative for a new prison was approved by the Legislature. Consequently, the committee did not consider these facilities for a year 2000 state bond (although these facilities needs should be considered high priorities in the future). Based on the evidence of significant needs in particular areas, the committee makes the following recommendations:

Finding/Recommendation 1

Ensuring Housing Availability for All Californians

Housing comprises an integral part of economic development. High housing costs and the unavailability of housing constitute one of the biggest obstacles for California businesses, schools and government in recruiting the qualified, high caliber employees they need. California faces one of the highest housing costs in the nation. Eleven out of 25 cities with the highest cost-of-living in the nation are in this state. Because of these high costs, working Californians find themselves increasingly unable to afford a home and home ownership in California has now dropped to the second lowest level in the nation. Not only does a housing affordability gap exist, so does a rent affordability gap. California has fallen behind in supplying adequate and affordable housing to meet its citizens' needs.

Finance mechanisms that provide housing for California's families are key to maintaining the State's economic prosperity and quality of life. Thus, this committee recommends at least a \$750 million to \$1 billion General Obligation housing bond proposal be placed on the year 2000 ballot. The committee believes the use of General Obligation bonds are an appropriate option to enable California to provide loans to first time homebuyers and assistance for teachers, firefighters, and police, so they can afford to live in the communities they serve. The uses of such General Obligation bonds are also appropriate to fund senior housing, seasonal worker housing and housing to lift the homeless into safe and secure surroundings. Together, these actions would also enhance the private sector's ability to build sufficient housing for California's future workers. Other funding methods, such as public/private partnerships and tax incentives, should also be used to increase housing resources.

Finding/Recommendation 2

Facility Maintenance, Rehabilitation and Retrofitting

Californians are entitled to live in, work in and visit safe buildings, yet funding for building maintenance, rehabilitation and retrofitting has been severely reduced in the past two decades. Existing buildings should be well maintained to preserve the State's earlier capital investments, and should be upgraded to meet the challenges of crime prevention and natural disasters, to ensure safety and capacity. It will take major

investments to address these needs. Federal, state and local resources provided by previous legislation will soon be exhausted. Many of these funds come from local tax revenue and bond proceeds. Governor Davis has responded by addressing the substantial deferred maintenance backlog through the budget process.

Finding/Recommendation 3

Hospital Needs

California should provide quality medical facilities and essential services for its citizens. Many hospitals in California have aged considerably and need to be rehabilitated, seismically retrofitted or replaced. After the Northridge Earthquake, SB 1953 was enacted requiring hospitals to submit retrofit evaluations to the state by 2001. Many nonprofit hospitals may not be able to afford retrofitting. Unless adequate funds are made available, California hospitals may not be able to do the rehabilitation or replacement required so that important medical services can continue to be provided for their communities. The first phase of hospital retrofit is due as of 2008 and is estimated to cost \$10 billion, though better cost estimates should be available when evaluations are submitted in 2001. The committee is deferring its recommendations until this data is available. A variety of funding mechanisms should be explored to meet retrofit and replacement costs to ensure that no community is left without needed hospital care.

Finding/Recommendation 4

Establishment of Criteria for Bond Priorities

The committee will be studying and analyzing appropriate criteria and the context for assessing other key and critical California infrastructure needs through the fall and winter. Public facilities should be considered for bond financing in light of the State's overall infrastructure needs. A portion of bond proceeds could also be dedicated to increase public/private sector partnerships in meeting public infrastructure needs. In considering proposals for a year 2000 bond, the various types of public facilities were evaluated using the following criteria: 1) convincing evidence of current need; 2) effect on public health and safety; 3) economic impact; 4) impact on Californian's quality of life; 5) availability of other funding sources; and 6) appropriateness of bond financing.

Finding/Recommendation 5

Planning

In its work over the last several months, the committee has come to appreciate the complexity of attempting to evaluate, compare, and prioritize the wide variety of state and local facility needs. Though the committee received valuable information from a variety of experts and interested parties, it is apparent that the State would benefit if decision-makers had a comprehensive inventory of its facilities needs and options for financing those needs. The State should develop a long-range capital plan that identifies its infrastructure needs, establishes priorities, and presents funding mechanisms to implement the plan.

NATURAL RESOURCES COMMITTEE FINDINGS AND
RECOMMENDATIONS

Preservation and enhancement of California's natural resources are vital to maintaining a quality of life that will continue to attract industries and businesses to California. The information received to date is sufficient to make the following recommendations as immediate bonding priorities. These findings and recommendations presented below represent just a beginning for a comprehensive program to be developed over the next sixteen months.

Recognizing there are other bond needs destined for the 2000 ballot, we recommend \$3 billion be allocated for resources, including water, parks, and open space.

Finding/Recommendation 1

State Water and Environmental Needs

An abundant supply of high quality water is the lifeblood of California, is crucial for all future conservation efforts, and there are many issues associated with ensuring its continuance. The State relies heavily on the San Francisco Bay/Delta water projects to supply the needs of its cities and farmland. Ecological issues associated with the Delta water system, including fisheries protection and salt water intrusion must be addressed with solutions that provide both flexibility and greatest economic return for the investment. Watersheds have to be protected to allow natural cleansing processes to occur and for wildlife habitat. Ensuring the safety and reliability of California's water supply also presents a pressing problem. Wastewater needs to be treated before it is released into the environment or before it can be recycled to reduce demand for pristine supplies. Older solid waste disposal sites pose environmental hazards as toxic chemicals seep into groundwater. Underground storage tanks must be leak proof to protect local aquifers. The state will have to address all these needs and many other water and resource issues to ensure an adequate supply of quality water in the next century.

Other environmental priorities include cleaning up the toxic waste left over from past practices and in improving air quality. Urban areas, trying to attract infill development must contend with remediating brownfield sites that are the legacy of past industrial usage. The majority of the State's population resides in air basins that are in non-attainment status for federal and state air quality standards. These needs could have serious consequences for the health of California's citizens unless they are addressed soon.

The Department of Water Resources, State Water Resource Control Board, California Environmental Protection Agency and CALFED estimate that short term needs to address these issues totals approximately \$8.0 billion. Federal funding comprises one of the critical keys to helping narrow the gap between these needs and available funds. However, this funding must be matched with State and local resources. Of the \$8.0 billion in needs, federal and local sources can supply approximately \$2.7 and \$1.3 billion respectively. Pay-as-you-go sources and already approved bond measures, including Proposition 204 funds, provide approximately \$1.2 billion more. The State Infrastructure Bank and the Governor's enhanced commitment to current budget funding are available to localities to meet some of this water infrastructure need. We also must recognize that other methods of financing are available and need to be evaluated and, where appropriate, implemented

if the State's water needs are to be met. This committee recommends that the Governor consider advancing a water bond up to \$2 billion to address these critical water development, water reliability and water quality needs.

Finding/Recommendation 2

State Natural Resource Needs

California's enhanced quality of life depends on the condition and accessibility of its parks, open spaces, and natural resources. The quality and availability of these resources are a major part of the decision making process for industries seeking to relocate. After over a decade of neglect and disrepair we must set as one of our highest priorities the rebuilding and expansion of precious resources and the reversal of the decline of California's quality of life. Quality parks and natural resources are lubricants for the State's economic engine because of their ability to attract tourism and new businesses. It is important to maintain and expand our state park system and local park and recreation facilities. Urban parks are also important to enhance our cities. The State's conservancies provide an invaluable service in preserving open space in areas impacted by development such as in the Coachella Valley, Santa Monica Mountains, San Joaquin Valley, and Lake Tahoe. The Coastal Conservancy has been instrumental in preserving public access to the State's beaches. In addition to providing view-sheds and public access, these conservancies also preserve habitat and ecosystems.

More than 12 years have passed since parks and open space preservation have been supported through a State bond. As a consequence, the State Departments of Parks and Recreation, Fish and Game, Forestry and Fire Protection, Conservation, and Boating and Waterways, in addition to the State Conservancies and the California Conservation Corp, have been hard pressed to keep abreast with the consequences of population growth, increased demand for services and urban encroachment. Responding to the State's natural resources needs is estimated to cost approximately \$5.6 billion. Some of this need can certainly be met through federal, local, or pay-as-you-go sources of funds, as well as the generous support from land trusts and other private sources. There are three competing measures in the Legislature, Assembly Bill 18, Senate Bill 2, and Senate Bill 57; that propose to fund various components of the shortfall. To respond to this shortfall, this committee recommends a bond proposal of up to \$2 billion to be placed on the year 2000 ballot.

In conclusion, this committee recommends a combined amount of up to \$3 billion in bonding priorities to reverse the decline in California's quality of life. However, this committee must also note that providing this amount of funding does not cure the State's environmental problems. It is not possible to do so even within a single decade. Developing and funding the solutions must be part of a long-term plan that provides a reliable and continuous source of funding which can be programmed towards identified needs, including ongoing funding for operations and maintenance of existing facilities and deferred maintenance. This committee will continue to define and scope the parameters of such a plan as part of its mission.

TECHNOLOGY COMMITTEE FINDING AND RECOMMENDATION

TECHNOLOGY

Keeping current with technological innovation is the key to ensuring a high standard of quality of life for Californians by remaining economically competitive. The State must take active steps to prevent the creation of a “digital divide” between its citizens by ensuring that all Californians have universal access to the benefits of the technological revolution. The process of developing those steps creates many opportunities for the State. In exploring these opportunities, the members of this committee have heard testimony from educators and information technology experts on the subjects of using technology to improve education and rural medical care, relieving transportation congestion, and bringing government services closer to the public. This committee has also heard presentations from financial advisors, industry leaders, and legislators on innovative financing techniques, creating incentives to stimulate telecommunications industry investment within the state, and current legislative initiatives. The larger task of defining how these opportunities can be realized still remains before this committee. The following findings and recommendations are an initial step towards achieving that goal.

Finding/Recommendation

Technology and Educational Infrastructure - Wiring the Schools

The Technology Committee is exploring the development of goals and criteria towards a common approach to accomplish universal access to information technology by the educational community. This initiative has multiple dimensions as follows: Hardware /Conductivity, Training, Systems Support, Learning Environment, Professional Development, Evaluation, and Partnerships. The task of defining these dimensions requires industry, communities and the State to consider human resource, application, hardware, and software issues.

Fortunately, various levels of government and the private sector have shown leadership in working towards these goals. Nationally, the Federal E-Rate program offers financial assistance for limited types of technological infrastructure. The State has moved forward in these areas through programs such as the Digital High School Program, which provides funding and technical assistance for bringing high schools into the information age and through Proposition 1A funding. At the local level, Orange County uses video technology to develop educational skills for teachers and staff. Mendocino County has developed a comprehensive program that integrates technology directly into the civic and learning environment. Private industry has contributed by providing hardware, software, and training at reduced or no cost through charitable programs.

These efforts and programs, though valuable and pioneering, must be integrated into a comprehensive strategy to be effective. This strategy must ensure that all of the State’s students, regardless of location or economic status, have access to technological benefits so that they are universally prepared for the challenges of the next century. Defining this strategy is the primary focus of this committee. It will accomplish this task through a three-part process as follows:

TECHNOLOGY

- 1.) Surveying educational institutions, the private sector, and other organizations to determine where gaps exist in coordination and integration in the dimensions described above.
- 2.) Developing criteria, goals, and objectives that will guide the State and educational institutions in developing standards for universal technological access by the educational community.
- 3.) Recommending a financial strategy that will contain elements that maximize use of public and private funds and take advantage of innovative financing techniques.

Although this committee will maintain a primary focus on technological innovation in educational infrastructure, it will continue to examine opportunities to realize similar gains for California in increasing access to governmental services and fostering electronic commerce. This committee will continue to define opportunities for innovation and, where possible, seek to make recommendations for their implementation. However, it must also be recognized that the process is a much larger undertaking that will involve a dialogue among all levels of government, industry, and the State's citizens. That dialogue cannot begin soon enough.

TRANSPORTATION COMMITTEE FINDINGS
AND RECOMMENDATIONS

TRANSPORTATION

An efficient multimodal transportation system is integral to California as we move into the next century. Building upon the Governor's leadership in the budget response to transportation needs and in responding to his priorities of reducing congestion, shortening commute times for our citizens and increasing our productivity, the following interim recommendations will accelerate progress towards a 21st century transportation system. These recommendations will improve the quality of life for California's families. While the current transportation environment is fraught with deficiencies, we believe great strides can be made to provide all of our citizens with equitable access and viable alternatives for commuting and traveling throughout the State. The findings below will also be used as a framework by this committee to analyze transportation issues and alternative solutions, as it develops a course of action that will provide congestion relief, sustain economic growth, and improve the quality of life in California.

Finding/Recommendation 1

Transportation System Needs

Senate Resolution 8, prepared by the California Transportation Commission, identified significant transportation system needs over the next ten years. These needs exist on our streets and roads, state highways, and public transit systems. In addition, the response to SR 8 demonstrated the near term need for strategic investment in goods movement, including enhanced seaport and airport access, and border infrastructure improvements. The needs include maintenance, rehabilitation, and capital expansion to meet existing and future demand. It is unclear at this time how many of these needs can be addressed through conventional and innovative transportation funding techniques. However, it is clear that a bond measure for these purposes may be an appropriate priority in the future.

Finding/Recommendation 2

Rail and Ferries

The State of California has invested a significant amount of capital funds over the last 15 years to construct and improve upon a well-designed passenger rail system. As the population continues to increase and the State's economy continues to grow, the State must continue to invest in the existing rail system to stem and actually reduce the growing congestion. In the San Francisco Bay area, ferries are an emerging and valuable strategy for reducing congestion on bridges. This committee recommends that a bond measure of \$500 million to \$1 billion be placed on the 2000 ballot to support a program of increased investment in capital projects that will improve California's passenger rail and ferry systems and help relieve congestion in well-traveled commuter corridors. The program should invest in projects that increase capacity and streamline operations on existing commuter corridors and that provide additional equipment to meet the needs of expanded capacity. The result of such an investment could increase rail and ferry service frequencies and reliability, reduce commute trip times, and improve safety and service quality for commuters.

Finding/Recommendation 3

Local Transportation Finance

Local transportation sales taxes are a significant flexible source of funding that should be preserved. Eighteen counties have enacted local sales taxes for transportation that

have contributed over \$30 billion in revenues for projects and programs. However, 16 of these counties will lose this valuable funding tool as their authorizing measures expire over the next 10 years. Given current state constitutional requirements mandating a supermajority vote to replace these taxes, it is unlikely that they will be renewed. We recommend that the Legislature approve a measure to accomplish the goal outlined in this recommendation for submission to the voters in the year 2000.

Finding/Recommendation 4

Project Priorities

California is faced with many conflicting transportation priorities that compete for scarce transportation funds. To maximize the return on our investment, in terms of mobility, economic, and environmental benefits, a uniform process for determining critical projects should be developed that is performance based. The act of determining such a system, including categories of measurement and appropriate performance indicators, will be a lengthy process and require input from all key transportation stakeholders. This committee believes this will require additional discussion before a final recommendation can be made.

Finding/Recommendation 5

Federal Innovative Financing Techniques

Grant Anticipation Revenue Vehicle Bonds (GARVEEs) provide a useful tool whereby the State can accelerate projects that have significant potential for a high return on investment. However, GARVEEs involve a trade-off between increased cost for debt service, cost savings for inflation, and economic benefits of early project development. Given the current balances in the State Highway Account, the ability to use incremental advance construction funding techniques, and current high availability of federal obligation authority, this technique may not be required at this time. However, to maximize State flexibility to respond to changing conditions, the state should have the authority to issue such bonds to finance worthy projects. Any GARVEE authorization for project funding, should protect individual county shares, require a comprehensive cost benefit analysis, and protect the credit worthiness of the State.

Finding/Recommendation 6

Use of Federal Trust Funds

Due to delays in local project delivery, unused obligation authority levels have increased to the point where the State must take steps to ensure that it will be able to expend all of its available federal funds. Caltrans, the California Transportation Commission, and regional and local agencies must relieve project delivery backlogs and increase the flow of funds through the State Highway Account.

Finding/Recommendation 7

High Speed Rail

High Speed Rail offers a long-term prospect for improving transportation options between major markets in California at an estimated cost of \$20 billion to \$30 billion dollars. Any recommendation in this area is premature until the High Speed Rail Authority completes its alignment, mode of service, and financial analysis. This committee will continue to monitor this effort and the Southern California Association of Governments (SCAG) Mag-Lev Study.

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